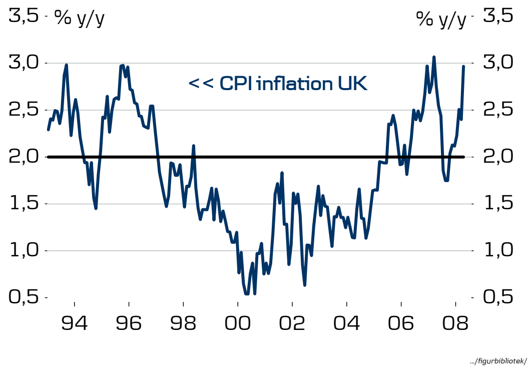
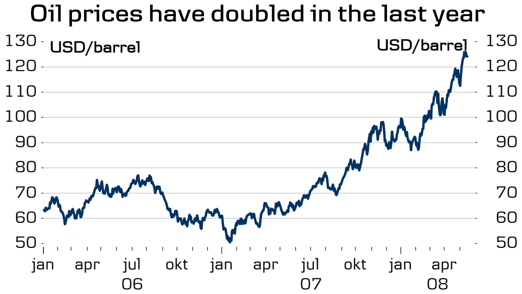
Weekly Focus

May 16-23, 2008

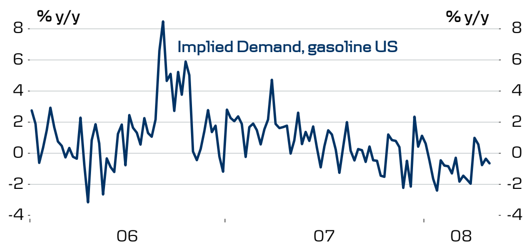
Bank of England sounds the alarm



Oil prices have doubled in the last year



Only slight drop in US gasoline consumption



Oil prices may not have peaked yet

What was inconceivable just a couple of years ago is now everyday reality. Oil is trading at around USD 125/bbl. Prices have doubled in the last year – and we have not necessarily seen the end of it!

High energy and food prices are already a headache for the world's central banks, coming as they do at a time of stagnating growth, not least in the West. This week it was the Bank of England that sounded the alarm, warning that inflation will not permit interest rate cuts in the coming year despite weaker growth. In reality, though, the central banks' inflation problems are not necessarily yet over. Like everyone else, central banks are tending to assume that commodity prices have peaked, and that the direct effect on inflation will cease one year ahead. We share this view, and do not see commodity prices continuing to soar in 2009, although we do expect a slight overall increase.

But what if…? There is certainly no guarantee that oil prices have peaked. We are still seeing plenty of problems on the supply side in the oil market, and demand in China and the Middle East just keeps on growing due to prices being kept artificially low through public subsidies. Nor is there any guarantee that demand for gasoline in the USA in the coming months during the all-important driving season will be as weak as many expect. If Americans choose to use their tax rebates to fill up their mobile homes and criss-cross the continent as they normally do, oil prices may very well climb further in the coming months. That said, we reckon that oil prices are approaching levels that will be harder and harder to explain on the basis of the fundamentals – so perhaps there is some hope.

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Denmark

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Interest rate increase

Danmarks Nationalbank (DN) has with effect from 16 May decided to raise the lending rate and the interest rate for certificates of deposits to 4.35% from 4.25%. The discount rate and the interest rate on banks' current accounts with DN remain unchanged at 4.0 per cent.

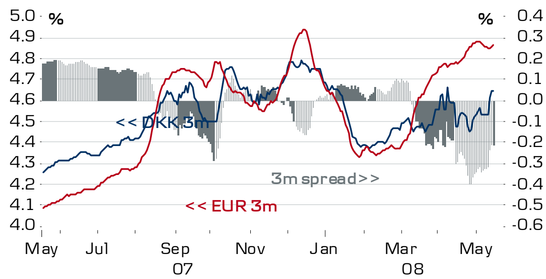
This interest hike comes as a surprise to the market. As we wrote on 6 May: "We expect DN to tolerate continued intervention in the coming months before resolving to unilateral rate hikes". We believe that this has been the common perception in the market. As far as we know, no one had explicitly expected the DN hike. The last time DN raised interest rates was in February 2006 – also by 10bp – following the TDC sale. At that point, cumulative intervention had amounted to around DKK 34bn.

DKK has recently been under moderate stress and drifted slightly weaker against EUR. The current pressure on DKK reflects a misalignment in the Danish and euro-area money markets, resulting in positive carry on EUR/DKK. In addition, the Carlsberg purchase of Scottish & Newcastle may have had some negative effect on DKK, although it is unclear how much of the acquisition has had an immediate effect on the Danish currency.

Market reaction has so far been relatively muted, with EUR/DKK trading slightly downwards from around 7.4628 to 7.4610, ie, still lingering above the central parity of 7.46038. DN net bought DKK 7.8bn in April to keep EUR/DKK stable. This amount was larger than widely expected. April's intervention was the first to buy DKK since December 2007 (DKK 11.9bn). DN sold DKK worth DKK 8.0bn in Q1. We believe that DN has also intervened in May to support DKK. EUR/DKK suddenly stopped climbing around the 7.4630-mark while positive carry on EUR/DKK remained. It is, however, still too early to say how large this support has been.

We regard the move by DN as pre-emptive. But until money markets normalise, upward pressure on EUR/DKK is likely to be sustained, and today's relatively small hike might prove insufficient. We think DN will be ready to raise rates further if pressure on DKK remains. Accordingly, vigilance on DN around 10.00CET Friday is advised.

EUR vs DKK: 3M deposit spread



Key events of the week ahead

- Thursday sees the release of consumer sentiment for May. We expect confidence to increase a little from -3.1 to -2.9.

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Thu 22	9:30	DKK	Consumer confidence	index	May	-2.1	-2.0	-3.1

Sweden

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Q1 GDP to come in strong, but not surprisingly so

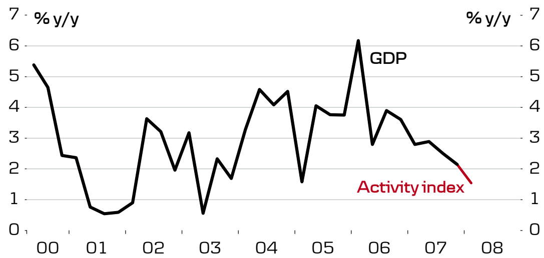
With the arrival of the latest industrial data we are able to produce a reasonable estimate of Q1 GDP from primary statistics. In short, we expect growth, including the calendar component (see below), to come in at around 3% y/y – possibly with an upside risk.

The Activity Index, which has proven a rather reliable GDP indicator, is pointing towards growth of 1½% y/y in Q1 (excl. calendar component). On the other hand, totting up GDP with the help of, *inter alia*, trade balance and retail sales data, we arrive at an estimate that is slightly higher, around 2% y/y (hence the possible upside risk).

However, whereas we normally place quite a strong emphasis on our calculated GDP number, this time we have chosen to put our money on the Activity Index. Why? Well, to be honest, the indicators we constructed for the various sub-components of GDP seem to have been less accurate in recent quarters. This in turn seems to have a lot to do with developments in inventories and exports. Export growth (in GDP terms) now seems to be better captured by the current account numbers, which also include service exports. This data will, however, not be available until 30 May – the same day that the Q1 GDP numbers are published. As for inventories, our indicator points to a drastic reduction, and could thus be said to explain the divergence between the Activity Index and our own calculations. Unfortunately, in the last quarter our inventories indicator opened up a large gap to GDP inventories, which is why we are a bit wary of this particular indicator.

The above-mentioned numbers might seem low (especially given the Riksbank's forecast of 2.8% y/y GDP growth in Q1), but the divergence is fully explained by a large calendar component, which the National Institute for Economic Research estimates to be around 1½ pp. Adding the estimated calendar component to the actual outcomes of primary statistics / activity index produces a range of possible outcomes between 2¾% y/y and 3½% y/y. We suspect that the higher end of the range is mainly a result of us not succeeding in capturing the inventory and net export dynamics completely. This is also why we feel more comfortable with an outcome at the lower end, around 3% y/y.

Actual (excl. cal. comp.) GDP to come in low



Key events of the week ahead

- The labour force survey (LFS) will undoubtedly be the main event this week.
- We are especially keen to see how hours worked and employment are developing. Anything but a continued deterioration would be a surprise.
- With the LFS data we may also get some interesting insights into productivity and ULC data.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Wed 21	9:30	SEK	Statistics Sweden, Unemployment	%	Apr	**6.0**	*6.1*	6.3

Norway

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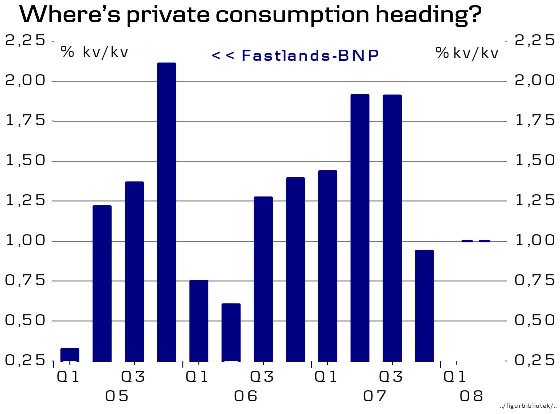
Still over the speed limit

Nine months after the financial crisis kicked in big-time, it is still difficult to see any impact on the real economy in Norway. Even so, we expect the GDP figures for Q1 to show that growth in mainland Norway is in retreat.

There is little doubt that higher interest rates and rising debt ratios are eating away at households' purchasing power. We also believe that the turmoil during the winter has pushed up the savings ratio slightly, leading to growth in private consumption of only about 0.25% in Q1, which would be the lowest rate of consumption growth for more than two years. The real uncertainty, though, is about investment activity. We know that housing investment is falling sharply, and the number of starts on commercial property suggests a certain levelling-off there too. But it will probably be longer before we see this reflected in the investment figures in the national accounts.

Overall, we reckon on growth in mainland GDP of 1.0% in Q1, which would indicate that the Norwegian economy has shifted into a slightly lower gear, yet without growth falling below trend (0.8%-0.9%). If so, the figures will not give Norges Bank the ammunition needed to claim a major slowdown, and the focus will instead be on the current high rate of inflation.

Where's private consumption heading?



Key events of the week ahead

- Wednesday brings GDP figures for Q1. We anticipate growth of 1.0% q/q.
- Labour Force Survey (LFS/AKU) unemployment figures for March (February-April) are due on Thursday. We expect unemployment to stabilise at 2.4%.
- Thursday also sees Norges Bank governor Svein Gjedrem's annual hearing in the Norwegian parliament. In principle, the focus is retrospective.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 19	10:00	NOK	Speech by Governor Gjedrem, Norges Bank					
Wed 21	10:00	NOK	GDP (total)	q/q|y/y	1st quarter		*0.7%*	1.3%
Wed 21	10:00	NOK	GDP (mainland)	q/q	1st quarter	**1.0%**	*0.7%*	0.9%
Thu 22	-	NOK	Governor Gjedrem: Open hearing in Parliament					
Thu 22	10:00	NOK	Unemployment s.a. (LFS)	%	Apr	**2.4**	*2.4*	2.4

Euroland

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Euro-zone growth off to a good start in 2008 – but headwind ahead

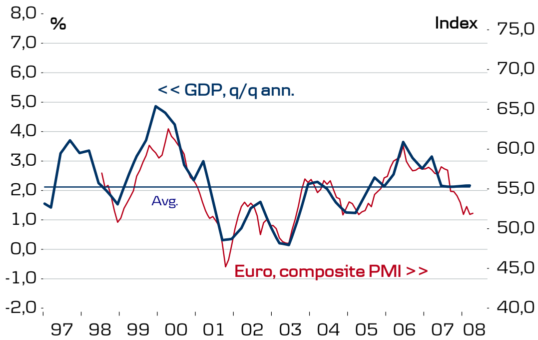
The inflation and GDP numbers released in the past week showed that Euroland inflation is still high and that GDP growth was off to a good start in 2008. Not least the German GDP data surprised on the upside.

April inflation came out at 3.3%, down a little (0.3%-points) from March, when inflation numbers were influenced by the early Easter. Price increases were, not least, driven by rocketing oil prices and higher food prices. Energy prices surged by 10.8% y/y in April, lifting the rate of price increases by 1%-point. Meanwhile, the core inflation rate has remained relatively high, at 2.4% in April against 2.7% in March. We expect inflation to creep up a little over the summer. Uncertainty about oil prices is looming high but the price increases in recent weeks might push inflation up even further.

Euro-zone GDP grew surprisingly fast in Q1 2008, at 0.7% q/q and 2.2% y/y. Everything indicates that – like in previous quarters – GDP growth was driven especially by exports and fixed capital investment. Note, though, that the early Easter this year may have influenced growth numbers, and we expect this to have a knock-on effect on Q2 data.

The week ahead will give us a clearer picture of how the strong economic headwinds will affect the European economy in the coming months, with the release of the German Ifo business survey and PMI numbers for the euro-zone. Both indicators normally give a good indication of economic developments. We expect GDP growth to slow in the coming quarters as the substantial headwinds (still strong euro, lower global growth, higher oil and food prices, and credit tightening) feed through into the European economy. Hence, we expect a number of weak reports in the coming 3-6 months.

Low PMI pointing towards slower growth



Key event of the week ahead

- The German Ifo will set the agenda on Wednesday. Look for a modest fall.
- PMI data for the euro-zone are due out Friday. We expect manufacturing and, not least, services PMI to edge down a little further.
- Moreover, the coming week will see the release of Euroland industrial orders and the German ZEW indicator of business sentiment.

Date	Time		Event		Period	Danske Bank	Consensus	Previous
Mon 19 - 25	-	DEM	Import prices	m/m|y/y	Apr		0.6%|5.3%	0.4%|5.7%
Mon 19	8:30	FRF	Bank of France Business Sentiment	Index	Apr			105
Tue 20	8:00	DEM	PPI	m/m|y/y	Apr		0.6%|4.8%	0.7%|4.2%
Tue 20	10:00	ITL	Industrial orders, s.a.	m/m	Mar		-2.5%	2.0%
Tue 20	11:00	EUR	ZEW economic sentiment	Index	May			-44.8
Tue 20	11:00	DEM	ZEW economic sentiment	Index	May		-37.0	-40.7
Tue 20	11:00	DEM	ZEW current situation	Index	May		32.0	33.2
Wed 21	9:00	ESP	GDP, final	q/q|y/y	1st quarter		0.3%|2.7%	0.3%|2.7%
Wed 21	11:00	DEM	IFO- business climate	Index	May		102.0	102.4
Thu 22	9:30	ITL	Consumer confidence	Index	May		99.2	99.8
Thu 22	11:00	EUR	Industrial new orders	m/m|y/y	Mar			0.6%|9.9%
Fri 23	8:45	FRF	Consumer spending	m/m|y/y	Apr		0.6%|2.2%	-1.7%|1.2%
Fri 23	9:00	FRF	PMI manufacturing, preliminary	Index	May		51.0	51.1
Fri 23	9:30	DEM	PMI Manufacturing	Index	May		53.3	53.6
Fri 23	9:30	DEM	PMI Service	Index	May		54.5	54.9
Fri 23	10:00	EUR	PMI Manufacturing	Index	May		50.3	50.7
Fri 23	10:00	EUR	PMI Service	Index	May		51.7	52.0
Fri 23	11:00	ITL	GDP, preliminary	q/q|y/y	1st quarter		0.2%|0.4%	..|..
Fri 23	15:00	BEF	Business Confidence SA	Level	Apr			-7.9

USA

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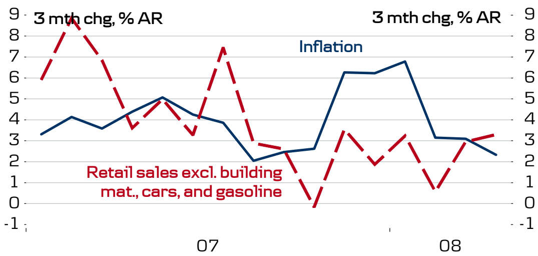
Fed fears easing?

US economic data released over the past month have generally been a tad better than expected, and this trend continued in the past week, with April's retail sales and consumer prices. While retail sales fell 0.2% m/m as expected, there were a number of positive factors to be found in the report's details. First, the March figures were revised up; and second, underlying retail sales (excluding cars, petrol and construction materials) rose nicely for the second month in a row (see *Flash Comment – US: Consumers not yet throwing in the towel*). This, together with the lower-than-expected consumer price inflation of 0.2% m/m in April, will provide a firmer foundation for real private consumption in Q2.

Hence, our estimate for Q2 GDP growth of -0.5% q/q AR is probably a little on the low side – and our fears of a direct fall in GDP in Q2 will likely ease. Given also that the latest data suggest the prospect of a small upward revision in Q1 GDP growth from 0.5% to 0.9% q/q AR, the overall picture is a little more positive than expected, although the US economy is, nevertheless, experiencing a severe slowdown.

Both consumption and inflation data surprising positively may help smooth out the worry lines of the Fed members. There were already indications at the last FOMC meeting that the central bank might be close to going on hold, and the latest data may well reinforce this. The minutes of the meeting on 30 April will certainly be closely scrutinised when they are released in the coming week for any hint of how close the central bank is to taking a break. The meeting minutes will also contain new forecasts on growth, inflation and unemployment from the individual central bank members. Besides the minutes, focus will be on the existing home sales data and the OFHEO house price index. We still expect home sales to stabilise around the middle of the year, while prices will probably continue to fall well into 2009.

A better base for consumption in Q2



Key events of the week ahead

- Tuesday: Producer prices will increase by 0.5% m/m (0.2% m/m excluding food and energy) in April.
- Wednesday: Meeting minutes and new forecasts from the Federal Reserve.
- Thursday: House prices from OFHEO. We expect a fall of 1.1%.
- Friday: Existing home sales in April expected to fall by 1.9% to 4.84m annualised.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 19	15:00	USD	Leading indicators	%	Apr		*-0.1*	0.1
Tue 20	14:30	USD	PPI	m/m|y/y	Apr	**0.5%|6.8%**	*0.4%|6.6%*	1.1%|6.9%
Tue 20	14:30	USD	PPI core	m/m |y/y	Apr	**0.2%|2.8%**	*0.2%|2.9%*	0.2%|2.7%
Wed 21	13:00	USD	MBA Mortgage Applications	%				2.9
Wed 21	20:00	USD	Minutes from FOMC meeting					
Thu 22	14:30	USD	Initial jobless claims	1000			*370*	371
Thu 22	15:15	USD	Fed's Kroszner (voter, neutral) speaks					
Thu 22	16:00	USD	House price index	m/m|q/q	Mar	**..|-1.1%**	*..|-1.0%*	0.6%|0.1%
Fri 23	16:00	USD	Existing home sales	m |m/m	Apr	**4,84 (-1.9%)**	*4.85 (-1.6%)*	4.93 (-2.0%)

Asia

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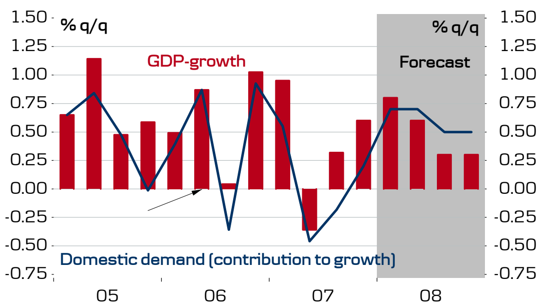
Japanese growth remains resilient in Q1

Japanese GDP growth in Q1 came out at 0.8% q/q, which was again better than expected (see Flash Comment – Japan: Strong Q1 GDP growth on improving domestic demand). Although growth in Q4 was revised downwards from 0.9% to 0.6% q/q, the overall impression is still that Japan has performed surprisingly well in recent quarters. It is still largely exports that are driving the Japanese economy, despite a sharp downturn in exports to the USA. Exports grew by 4.5% q/q in Q1, up from 2.6% q/q in Q4. Growth in exports to the rest of Asia and other emerging markets more than offset the downturn in exports to the USA. But it is not just exports that are driving the Japanese economy. Domestic demand has also moved into a slightly higher gear in recent quarters (see chart) – private domestic demand was behind 0.4pp of the GDP growth in Q1. Both private consumption and housing investment contributed to this stronger domestic demand, while business investment fell in Q1.

Nevertheless, we still believe that growth will slow significantly later this year as export growth drops to much lower levels, and the positive effect on growth from the normalisation of residential construction after the collapse in mid-2007 – following the introduction of tighter building regulations – evaporates. However, the strong GDP figures and the latest increase in inflation mean that the Bank of Japan will not need to soften its tone further. The latest GDP data serve as a clear reminder that there are still both upside and downside risks in relation to the BoJ's forecast for GDP growth of 1.5% in fiscal 2008. The stage is therefore set for a relatively drama-free monetary policy meeting in Japan in the coming week, where both we and the rest of the market expect the key rate to be left unchanged at 0.5%. The strong GDP figures will not prompt the bank to adopt a harsher tone. Until it can get a clear picture of the strength of the expected slowdown, the BoJ will stay on the fence and maintain a neutral bias in its monetary policy.

In China, the focus is currently on the aftermath of the earthquake that hit the southwest of the country during the week. The human cost has been considerable, but the economic consequences are expected to be limited, and probably far smaller than those of the snowstorms that hit southern China in January and February (see *Flash Comment – China: Economic impact from earthquake expected to be limited*). However, it may lead to a slight increase in inflationary pressure in the short term, mainly through increased activity in an already overheating construction sector.

GDP forecast for Japan



Key events of the week ahead

- Tuesday brings a monetary policy meeting at the BoJ, which is expected to leave its key rate at 0.5%.
- Friday sees the publication of the minutes of the BoJ's monetary policy meeting on 8-9 April.
- No important Chinese data are expected in the coming week.

Date	Time		Event		Period	Danske Bank	*Consensus*	Previous
Mon 19	7:30	JPY	Nationwide Dept. Sales	y/y	Apr			-1.2%
Tue 20	-	JPY	BoJ Monetary Policy Announcement	%		**0.50**	*0.50*	0.50
Tue 20	1:50	JPY	Tertiary Industry Index	m/m	Mar		*0.5%*	-1.7%
Tue 20	7:00	JPY	Coincident Index, final	%	Mar			33.3
Tue 20	7:00	JPY	Leading Economic Index, final	%	Mar			20.0
Tue 20	8:00	JPY	Bank of Japan Monthly Report					
Thu 22	1:50	JPY	Merchnds Trade balance Total	JPY bn	Apr		*729.0*	1118.6
Thu 22	1:50	JPY	All Industry Activity Index	m/m	Mar		*-0.1%*	-1.4%
Fri 23	1:50	JPY	BoJ Monetary Policy Meeting Minutes					

Foreign exchange

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From inflation to currencies

The top-three performing currencies in the past week have been **HUF**, **BRL** and **CAD.** Better-than-expected growth figures for Q1 were among the reasons for HUF firming more than 1% against EUR, while Brazil is benefiting from rising commodity prices and last week's upgrade to "investment-grade" by Standard & Poor's. We have a positive/neutral view on BRL against EUR, but are more sceptical about the sustainability of HUF performance. Meanwhile, at the bottom of the league we have **MYR**, **NZD** and **INR**, which have fallen between 2.5% and 3% against EUR. The fact that a number of Asian currencies excluding JPY (AXJ) have performed poorly this year is essentially a reflection of the economies concerned being vulnerable to the recent surge in commodity and energy prices. AXJ fundamentals are generally good: the currencies are generally undervalued, the current accounts are in surplus, and government borrowing requirements are moderate. Furthermore, the currencies of the region could be expected to rise on the back of any pick-up in the dollar. That said, increasing commodity prices are pulling in the other direction, especially in the case of **KRW** and **PHP**. Korea is extremely dependent on energy-heavy imports, and the external deficit is climbing. Politics is casting a pall over the Philippine economy, with fiscal responsibility in hasty retreat and the government allowing a steep rise in public sector pay ahead of next year's election. Among the Asian currencies, we expect that **SGD**, **MYR**, **THB** and **TWD** will be the winners. The fall in **NZD** that was discussed in last week's *Weekly Focus* follows a further deterioration in the outlook for the New Zealand economy in the past week. We expect to see more Kiwi weakness going forward.

Rising commodity and energy prices are an important theme for the financial markets in general, but the effects vary. Fixed-income markets have increased sharply in the past week (EUR 2-year swap rate has increased by 22bp, USD 33bp and GBP 44bp) at the same time as the curve has flattened. The movement reflects a fear that increasing inflation will limit future rate cuts, although the flattening of the curve is also consistent with the market not fearing that the inflation surge will be long-lasting. This is also apparent in the market pricing of implied inflation.

On the FX markets, there is currently not a direct link between relative yield movements and currency movements. For example, the steep increase in UK yields has not led to a stronger **GBP**. Meanwhile, the most notable point in Wednesday's quarterly Inflation Report from the Bank of England was the expectation that inflation will now jump to 3.7% in Q4, compared to February's expectation of 2.7%. If the bank's forecast is correct, cutting interest rates will be problematic in the coming months. On the other hand, the need for a more accommodative monetary policy was highlighted in the past week by the fall in retail sales and a serious deterioration in the prospects for the housing market. The result is a more negative outcome for the UK's economy in the longer term – and a slide in sterling. Indeed, we expect further GBP weakness in the coming weeks. Generally speaking, the decisive factor is to what extent a restrictive monetary policy, as a result of rising inflation, will be supported by the state of the economy. With the surprisingly strong growth figures from the euro zone in the past week in mind, it is easier to understand why the euro has strengthened against, for instance, GBP and CHF, and we would not recommend selling EUR/USD before Europe's economic downturn is more advanced (see also *EUR/USD: Will history repeat itself?*).

Fixed Income

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Market on the wrong track

Yields have increased as the financial crisis began to turn around in mid-March. The retreat of the financial crisis has brought a feeling of euphoria to the fixed income market, and sentiment has also improved in the equity and credit markets. Meanwhile, the markets believe that the US central bank, the Fed, is done with cutting rates for now.

The market's line of thinking is that the Fed has done more – and done it faster – than normal, due to the risk of a breakdown in the financial system. Now, with those risks rapidly retreating and inflation at a high level, the market estimates that the Fed is finished cutting, and that rate hikes will soon be on the agenda.

However, in our view, the market is wrong to expect three rate hikes in the US in the coming 12 months. It is possible, contrary to our expectations, that the Fed is finished cutting for now, but this does not necessarily pave the way for rate hikes anytime soon – the outlook for the US economy is simply too gloomy.

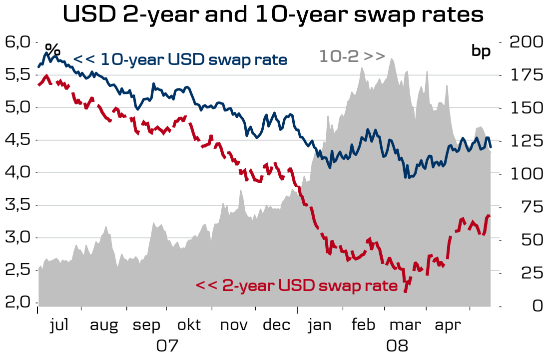
The correction in the housing market is far from over, the credit crisis still means tighter credit, and inflation is high due to skyrocketing food and energy prices that are eroding consumer purchasing power. Moreover, the dynamic in the labour market has turned, and unemployment is increasing. True, there is the prospect of some support to consumers over the summer in the shape of the government's "tax cheques", but much of this windfall will be poured into savings accounts and it will also be partly eaten up by the increase in energy prices. This spells more economic gloom around the end of the year.

In the short term it is impossible to say how long the current sentiment will continue, and yields may rise further. However, the current pricing is out of kilter with economic reality, and yields are expected to fall again as focus shifts to the still-steady stream of bad news. Given this, we expect lower US yields and a steeper curve in three months' time.

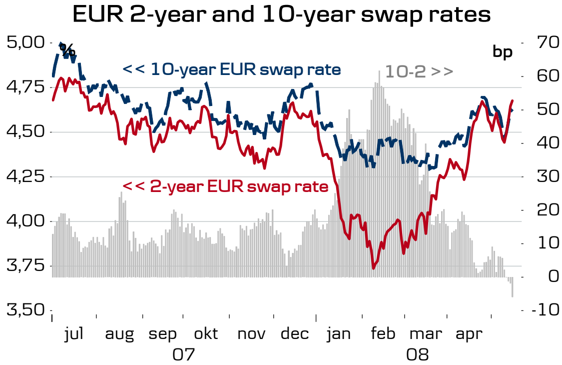
Interesting US economic numbers are thin on the ground in the week ahead, although house price data and existing home sales may well attract attention. Besides these numbers, focus will likely be on the minutes of the latest US monetary policy meeting on 29-30 April.

In Euroland, attention will be centred on ZEW, Ifo and PMI. We expect a further deterioration in Ifo and PMI, which will underline the deteriorating outlook for growth. However, lower inflation is the key to increased faith in rate cuts from the ECB.

USD 2-year and 10-year swap rates



EUR 2-year and 10-year swap rates



Commodities

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LME launches steel contracts

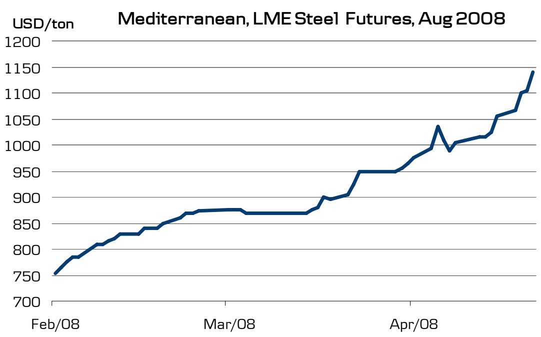
As commodity prices have risen, interest in hedging commodity risk and investing in commodities has exploded, and liquidity in global commodity markets has greatly improved. The number of products that can be traded on an exchange or OTC market has also increased. However, there is one commodity that has been difficult to trade on a major, global and liquid exchange – and that commodity is steel. This is perhaps surprising, considering that the steel market is only beaten by oil when it comes to annual production and value. Until very recently, the Dubai exchange was the only one trading steel futures (since October 2007).

Therefore much interest has been shown, especially by players in the steel market, in the steel contracts that are now being traded on the London Metal Exchange (LME). The LME is by far the world's leading metal exchange, and LME prices generally serve as reference prices for all trade with LME-listed metals. In addition, the financial world has shown a not insignificant interest in the idea of financial steel contracts. Up to now, it has been more or less only possible to invest in the steel market via equity markets, and it has been impossible to get direct exposure to an area that has seen prices double in the past two years.

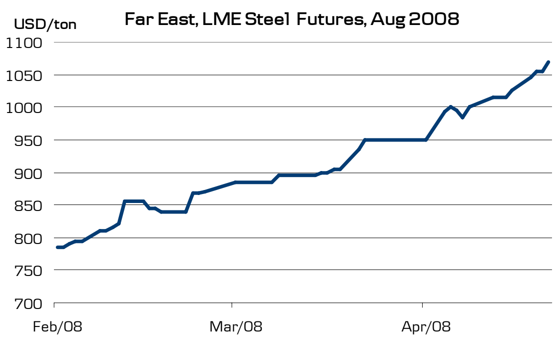
But the launch of the two steel contracts with proper trading in the LME ring on 28 April this year (electronic trading since February) has not been without its problems, and the contracts have been a long time in the making. The big problem is that steel is not just steel. It comes in countless different varieties and grades. There is no uniform product like gold or copper, and this makes an exchange contract far harder to use. To ensure that the price of a commodities contract does not deviate from the physical market, it is important that there is the possibility of physical delivery of the underlying asset. The steel market is also more regional than global, which presents additional challenges in terms of the physical delivery of the underlying asset. This regional distribution is the reason why two contracts have been introduced – one for the Mediterranean region and one for the Far East.

Finally, we should not underestimate the big steel producers' resistance to these contracts. Arcelor Mittal, for example, has been worried about the impact of speculation on prices and volatility. In reality, though, this is probably a sign that producers are worried about losing some of their power over the market – the steel market is dominated by a relatively small number of very big players. However, we think the producers are making a mistake. We reckon that the two steel contracts will be a success. And we definitely recommend that companies exposed to steel prices in one way or another keep an eye on developments in the coming months. Many of the criticisms levelled against these steel contracts are the same as those last voiced in the 1970s when trading in aluminium began, and there cannot be anybody today who believes that it was a mistake to start trading aluminium on an exchange. That said, there is still relatively low activity in the two steel contracts, but the ball is rolling.

LME steel prices, Mediterranean region



LME steel prices, Far East



Equities

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One step beyond

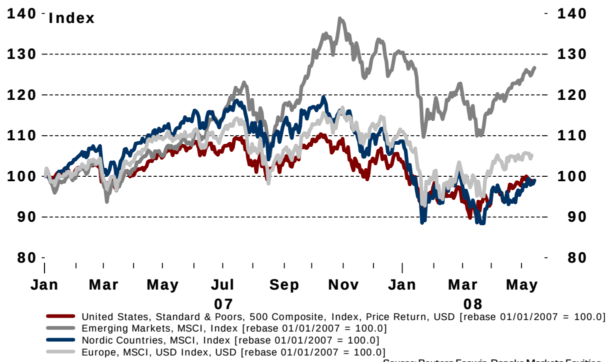
While the economic data out of the US, Japan, and to some extend Europe, has been non-too-encouraging, equity markets have rallied by around10% since mid-March. Asymmetrical performance when it comes to the economy versus equities is, however, not that unusual.

We have previously looked at how equities normally perform during US recessions, and, not surprisingly, the result was that performance was negative, on average, during the last six recessions. However, our most important finding was that equities typically start to pick up about half-way through the recession. Although an average US recession has not been called for the US economy, we are of the opinion that such a recession has already been discounted by equity markets, and this is why we have for some time been calling for a positive trend in equities despite the developments on the macro side.

There are several reasons for our optimism on equities: These include the fact that investors are already prepared for an average US recession, the global economy is slowing, but it will not even get close to a recession in 2008, non-financial corporates are in good health and have no immediate need to cut costs, valuation is attractive for equities, and the market can see beyond the economic slowdown before it troughs out. This final point is important for investors to keep in mind, as equities typically run ahead of economic realities. The US S&P500 index has, on average, dropped by around 23% during the last six recessions (from beginning to bottom), while over the recession as a whole, equities have returned -8%.

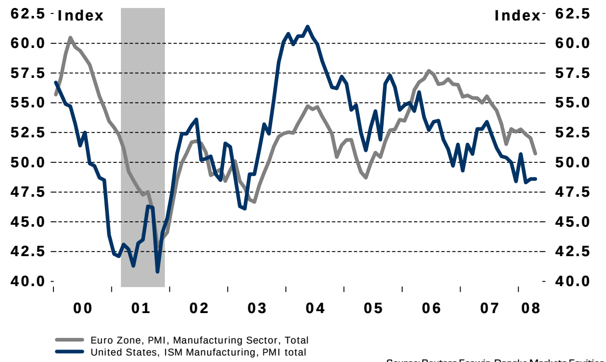
Despite the slowing global economy, we still see positive performance ahead in equities due to the arguments mentioned above. In the short term (3 months), we see an upside potential in global markets of +5% to +10%. This is also our 12-month forecast.

Equities have performed strongly over past month…



Source: Reuters Ecowin, Danske Markets Equities

…while business indicators suggest a slowdown



Source: Reuters Ecowin, Danske Markets Equities

Macroeconomic forecast

Macro forecast, Scandinavia

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Unem-ploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Denmark	2007	1,8	2,5	1,7	6,7	-0,2	3,7	6,1	1,7	2,9	4,1	25	1,1
	2008	1,4	2,4	1,7	2,6	-0,1	3,4	4,5	3,1	2,0	3,2	20	0,6
	2009	1,3	1,4	1,6	0,6	0,1	2,8	2,8	2,4	2,5	2,3	17	0,6
Sweden	2007	2,7	3,2	1,0	8,3	0,7	5,8	9,7	2,2	6,2	3,1	42,0	8,3
	2008	1,8	1,7	1,0	3,5	-0,7	5,3	4,5	2,9	6,2	2,9	37,7	8,2
	2009	1,6	1,0	1,8	0,4	-0,4	3,8	2,4	1,5	6,8	2,3	35,5	8,3
Norway	2007	3,5	6,4	3,2	9,6	-1,3	3,2	8,6	0,8	2,5	8,0	26	19,3
	2008	3,5	4,6	2,8	10,9	-0,2	3,7	9,2	4,4	3,3	12,0	26	20,6
	2009	2,9	4,1	2,8	2,6	0,0	3,4	4,8	2,2	3,4	13,9	26	18,2

Macro forecast, Euroland

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Unem-ploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Euroland	2007	2,6	1,4	2,1	4,8	-0,1	6,0	5,2	2,8	7,4	-0,8	67	-0,8
	2008	1,4	1,2	1,2	1,7	0,1	3,1	3,3	2,8	7,1	-0,8	65	-0,3
	2009	1,5	1,5	1,5	1,5	0,0	4,0	4,9	1,9	7,4	-0,8	64	-0,5
Germany	2007	2,7	-0,2	1,9	5,6	-0,1	8,5	5,5	2,9	9,1	-0,5	65	5,8
	2008	1,6	0,6	0,7	1,7	0,2	5,1	3,3	1,9	8,3	0,2	64	5,8
	2009	1,4	1,1	1,1	1,5	-0,1	5,0	3,9	1,4	8,0	0,4	64	6,0
France	2007	1,9	1,9	2,0	4,1	-0,2	3,5	6,6	2,0	8,0	-2,3	63	-2,3
	2008	1,6	1,6	0,9	2,2	0,2	3,1	4,0	1,8	7,7	-2,2	62	-2,3
	2009	1,5	1,8	1,3	2,0	-0,1	2,5	3,9	1,4	7,5	-2,3	61	-2,3
Italy	2007	1,8	1,7	0,8	2,8	0,0	2,5	1,8	2,6	5,9	-2,6	105	-1,7
	2008	1,0	0,9	0,5	0,9	0,2	1,1	2,3	2,3	5,7	-2,0	103	-1,7
	2009	0,9	0,9	0,8	1,2	-0,1	0,5	2,4	1,8	5,7	-2,2	102	-1,7
Spain	2007	3,9	3,4	5,3	6,4	-0,4	5,5	6,8	3,4	8,0	1,5	37	-9,0
	2008	2,7	2,3	3,2	3,7	0,2	3,6	4,3	3,2	8,2	1,0	35	-9,5
	2009	2,4	1,8	3,1	2,5	-0,1	2,5	3,9	2,3	8,8	0,0	35	-9,0
Holland	2007	3,0	1,8	3,2	4,8	-0,1	6,0	5,5	2,4	3,3	0,0	60	7,0
	2008	2,2	1,7	0,6	3,2	0,1	4,6	4,8	2,3	2,9	0,0	59	6,5
	2009	1,9	1,8	0,4	2,8	-0,1	3,5	5,4	1,7	2,8	0,0	60	6,5
Finland	2007	4,4	3,7	0,8	7,6	0,1	4,8	4,1	2,5	6,9	5,3	35	4,6
	2008	2,6	2,5	1,5	3,0	0,0	2,5	2,0	3,3	6,5	4,7	33	4,5
	2009	2,5	2,5	1,5	2,0	0,0	3,0	2,5	2,2	6,2	3,9	31	4,5

Macro forecast, Global

	Year	GDP[1]	Private cons.[1]	Public cons.[1]	Fixed inv.[1]	Stock build.[2]	Ex-ports[1]	Im-ports[1]	Infla-tion[1]	Unem-ploym.[3]	Public budget[4]	Public debt[4]	Current acc.[4]
USA	2007	2,2	2,9	2,0	-1,8	-0,3	8,0	1,9	2,9	4,6	-1,2	60	-5,5
	2008	1,2	1,4	2,4	-6,1	-0,4	7,2	-2,2	3,9	5,3	-3,5	61	-3,0
	2009	1,5	1,2	2,0	-2,8	0,0	7,4	1,0	2,2	6,0	-2,5	61	-1,2
Japan	2007	2,1	1,4	0,8	-3,1	-0,2	7,8	1,8	0,0	3,8	-3,3	180	5,0
	2008	1,4	1,1	0,9	2,0	0,1	5,0	3,8	1,2	3,8	-3,8	182	4,8
	2009	1,7	1,5	1,2	2,5	0,0	5,4	4,4	0,6	3,6	-3,5	183	5,0
UK	2007	3,1	3,1	1,9	4,1	0,0	4,2	-2,0	2,3	3,0	-2,5	43	-3,3
	2008	1,6	1,3	2,3	4,2	-0,2	3,8	3,5	2,6	2,8	-2,5	43	-4,1
	2009	1,6	1,3	2,4	3,0	0,0	3,4	3,0	2,1	3,0	-2,5	43	-4,0
Switzer-land	2007	3,1	2,1	0,1	2,7	0,1	10,0	5,2	0,7	2,8	-0,2	55	15,1
	2008	1,7	1,8	0,5	0,4	0,0	3,8	4,5	1,9	2,6	0,0	54	13,9
	2009	1,6	1,6	0,6	1,7	0,0	4,7	5,2	1,1	2,7	0,0	53	14,9

Source: OECD and Danske Bank. 1) % y/y. 2) % contribution to GDP growth. 3) % of labour force. 4) % of GDP.

Financial forecast

Bond and money markets

		Key int. rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK
USD	16-maj	2,00	3,28	4,43	155,0	-	481,3
	+3m	1,75	2,80	4,30	155	-	481
	+6m	1,75	2,85	4,30	150	-	497
	+12m	1,75	3,25	4,50	150	-	497
EUR	16-maj	4,00	4,70	4,63	-	155,0	746,1
	+3m	4,00	4,20	4,45	-	155	746,0
	+6m	3,75	3,95	4,30	-	150	746,0
	+12m	3,25	3,50	4,10	-	150	746,0
JPY	16-maj	0,50	1,21	1,91	162,1	104,6	4,60
	+3m	0,50	1,05	1,80	158	102	4,72
	+6m	0,50	1,15	1,85	150	100	4,97
	+12m	0,50	1,30	2,00	150	100	4,97
GBP	16-maj	5,00	5,66	5,25	79,5	194,9	938,0
	+3m	5,00	5,40	5,00	82,0	189	910
	+6m	4,75	5,30	4,90	80,0	188	933
	+12m	4,50	5,10	4,80	75,0	200	995
CHF	16-maj	2,75	3,11	3,54	163,1	105,2	457,4
	+3m	2,75	2,85	3,40	158	102	472
	+6m	2,75	2,70	3,30	156	104	478
	+12m	2,25	2,40	3,20	152	101	491
DKK	16-maj	4,35	5,02	4,78	746,1	481,3	-
	+3m	4,35	4,45	4,55	746,0	481	-
	+6m	4,10	4,10	4,40	746,0	497	-
	+12m	3,50	3,60	4,15	746,0	497	-
SEK	16-maj	4,25	4,85	4,87	934,0	602,5	79,9
	+3m	4,25	4,40	4,60	925	597	80,6
	+6m	4,25	4,25	4,45	920	613	81,1
	+12m	3,75	3,70	4,30	920	613	81,1
NOK	16-maj	5,50	6,32	5,50	787,0	507,7	94,8
	+3m	5,75	6,35	5,40	780	503	95,6
	+6m	5,75	6,20	5,30	775	517	96,3
	+12m	5,75	6,00	5,30	775	517	96,3
PLN	16-maj	5,75	6,39	5,86	339,0	218,7	220,1
	+3m	5,75	6,20	5,60	350	226	213
	+6m	5,75	5,90	5,75	355	237	210
	+12m	5,75	7,05	6,85	360	240	207

Equity markets

Regional	Risk	Price trend 3 mth.	Price trend 12 mth.	Regional recommen-dations
USA	Low	+5% to +10%	+5% to +10%	Neutral
Japan	High	+5% to +10%	+5% to +10%	Neutral
Emerging markets (USD)	High	+5% to +10%	+5% to +10%	Underweight
Pan-Europe (EUR)	Low	+5% to +10%	+5% to +10%	Overweight
Nordics				
Denmark	Average	+5% to +10%	+5% to +10%	Neutral
Sweden	High	+5% to +10%	+5% to +10%	Overweight
Norway	High	+5% to +10%	+5% to +10%	Neutral

Commodities

		2008 - average				Average	
	15-05-2008	Q1	Q2	Q3	Q4	2008	2009
ICE Brent	125	96	114	117	114	110	105
Aluminium	2.875	2.779	3.000	3.025	3.050	2.964	3.100
Copper	8.300	7.741	8.600	8.700	8.800	8.460	8.900
Gold	883	924	880	900	910	904	930
CBOT Wheat*	839	1.026	830	870	900	907	1.050
CBOT Corn*	639	527	610	630	650	604	660

* Note: US$/bushel

Key data and events

Monday, May 19, 2008				Period	Danske Bank	Consensus	Previous
1:01	GBP	Rightmove House Prices	m/m|y/y	May			-0.1%|1.3%
7:30	JPY	Nationwide Dept. Sales	y/y	Apr			-1.2%
8:30	FRF	Bank of France Business Sentiment	Index	Apr			105
10:00	NOK	Speech by Governor Gjedrem, Norges Bank					
15:00	USD	Leading indicators	%	Apr		*-0.1*	0.1

Tuesday, May 20, 2008				Period	Danske Bank	Consensus	Previous
-	JPY	BoJ Monetary Policy Announcement	%		**0.50**	*0.50*	0.50
1:50	JPY	Tertiary Industry Index	m/m	Mar		*0.5%*	-1.7%
3:30	AUD	Minutes from the May RBA meeting		May			
7:00	JPY	Coincident Index, final	%	Mar			33.3
7:00	JPY	Leading Economic Index, final	%	Mar			20.0
8:00	JPY	Bank of Japan Monthly Report					
8:00	DEM	PPI	m/m|y/y	Apr		*0.6%|4.8%*	0.7%|4.2%
9:15	CHF	Producer & Import prices	m/m|y/y	Apr		*0.4%|3.3%*	0.6%|3.9%
10:00	ITL	Industrial orders, s.a.	m/m	Mar		*-2.5%*	2.0%
11:00	EUR	ZEW economic sentiment	Index	May			-44.8
11:00	DEM	ZEW economic sentiment	Index	May		*-37.0*	-40.7
11:00	DEM	ZEW current situation	Index	May		*32.0*	33.2
14:30	USD	PPI	m/m|y/y	Apr	**0.5%|6.8%**	*0.4%|6.6%*	1.1%|6.9%
14:30	USD	PPI core	m/m |y/y	Apr	**0.2%|2.8%**	*0.2%|2.9%*	0.2%|2.7%

Wednesday, May 21, 2008				Period	Danske Bank	Consensus	Previous
2:30	AUD	Consumer confidence		May			-1.3%
9:00	ESP	GDP, final	q/q|y/y	1st quarter		*0.3%|2.7%*	0.3%|2.7%
9:30	SEK	Statistics Sweden, Unemployment	%	Apr	**6.0**	*6.1*	6.3
10:00	NOK	GDP (total)	q/q|y/y	1st quarter		*0.7%*	1.3%
10:00	NOK	GDP (mainland)	q/q	1st quarter	**1.0%**	*0.7%*	0.9%
10:30	GBP	Minutes from MPC meeting					
11:00	CHF	ZEW (expectations)	Index	May			-71.4
11:00	DEM	IFO- business climate	Index	May		*102.0*	102.4
13:00	USD	MBA Mortgage Applications	%				2.9
13:00	CAD	CPI	m/m|y/y	Apr		*0.4%|1.4%*	0.4%|1.4%
20:00	USD	Minutes from FOMC meeting					

Thursday, May 22, 2008				Period	Danske Bank	Consensus	Previous
-	NOK	Governor Gjedrem: Open hearing in Parliament					
1:50	JPY	Merchnds Trade balance Total	JPY bn	Apr		*729.0*	1118.6
1:50	JPY	All Industry Activity Index	m/m	Mar		*-0.1%*	-1.4%
4:00	NZD	2008 Budget		May			
9:30	DKK	Consumer confidence	index	May	**-2.1**	*-2.0*	-3.1
9:30	ITL	Consumer confidence	Index	May		*99.2*	99.8
10:00	NOK	Unemployment s.a. (LFS)	%	Apr	**2.4**	*2.4*	2.4
10:30	GBP	Retail Sales	m/m|y/y	Apr		*-0.4%|4.2%*	-0.4%|4.6%
10:30	GBP	Total Business Investment, preliminary	q/q|y/y	1st quarter			1.8%|1.7%
11:00	EUR	Industrial new orders	m/m|y/y	Mar			0.6%|9.9%
12:00	GBP	CBI Industrial trends Report		May			
14:30	CAD	Retail sales	m/m	Mar		*0.3%*	-0.7%
14:30	USD	Initial jobless claims	1000			*370*	371
15:15	USD	Fed's Kroszner (voter, neutral) speaks					
16:00	USD	House price index	m/m|q/q	Mar	**..|-1.1%**	*..|-1.0%*	0.6%|0.1%

Key data and events

Friday, May 23, 2008				Period	Danske Bank	Consensus	Previous
1:50	JPY	BoJ Monetary Policy Meeting Minutes					
8:15	CHF	Trade balance	CHF bn	Apr			1.25
8:45	FRF	Consumer spending	m/m|y/y	Apr		*0.6%|2.2%*	-1.7%|1.2%
9:00	FRF	PMI manufacturing, preliminary	Index	May		*51.0*	51.1
9:30	DEM	PMI Manufacturing	Index	May		*53.3*	53.6
9:30	DEM	PMI Service	Index	May		*54.5*	54.9
10:00	EUR	PMI Manufacturing	Index	May		*50.3*	50.7
10:00	EUR	PMI Service	Index	May		*51.7*	52.0
10:30	GBP	GDP, preliminary	q/q|y/y	1st quarter		*0.4%|2.5%*	0.4%|2.5%
10:30	GBP	Private consumption, preliminary	q/q	1st quarter			0.2%
10:30	GBP	Exports, preliminary	q/q	1st quarter			-0.5%
10:30	GBP	Imports, preliminary	q/q	1st quarter			-1.2%
11:00	ITL	GDP, preliminary	q/q|y/y	1st quarter		*0.2%|0.4%*	..|..
15:00	BEF	Business Confidence SA	Level	Apr			-7.9
16:00	USD	Existing home sales	m |m/m	Apr	**4,84 (-1.9%)**	*4.85 (-1.6%)*	4.93 (-2.0%)

During the week				Period	Danske Bank	Consensus	Previous
Mon 19 - 20	RUB	Industrial production	y/y	Apr	**6.8%**	*7.0%*	6.5%
Mon 19 - 25	DEM	Import prices	m/m|y/y	Apr		*0.6%|5.3%*	0.4%|5.7%

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